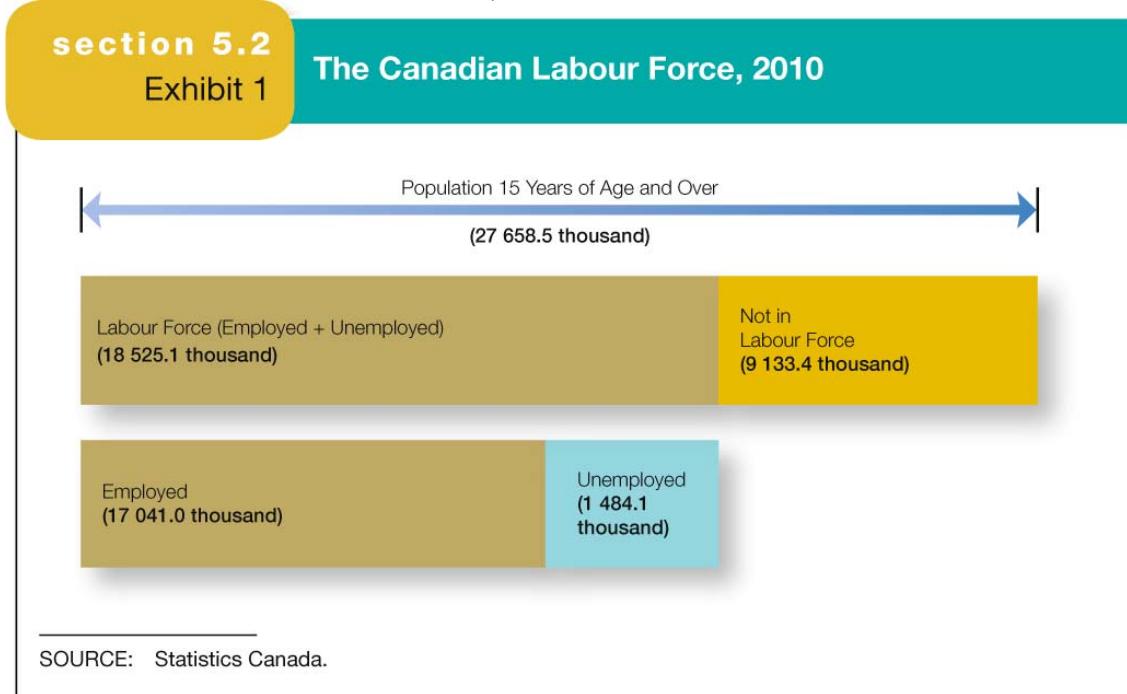


SECTION 5.2 EMPLOYMENT AND UNEMPLOYMENT

- High rates of unemployment in a society can increase financial insecurity and cause a great deal of anxiety. Society loses some potential output of goods when some of its productive resources—human or non-human—remain idle, and potential consumption is also reduced. Clearly, then, there is a loss in efficiency when people willing to work and productive equipment remain idle. Hence, other things equal, relatively high rates of unemployment are almost universally viewed as undesirable.
- The unemployment rate is one measure of labour market conditions. The **unemployment rate** is the number of people officially unemployed divided by the labour force.

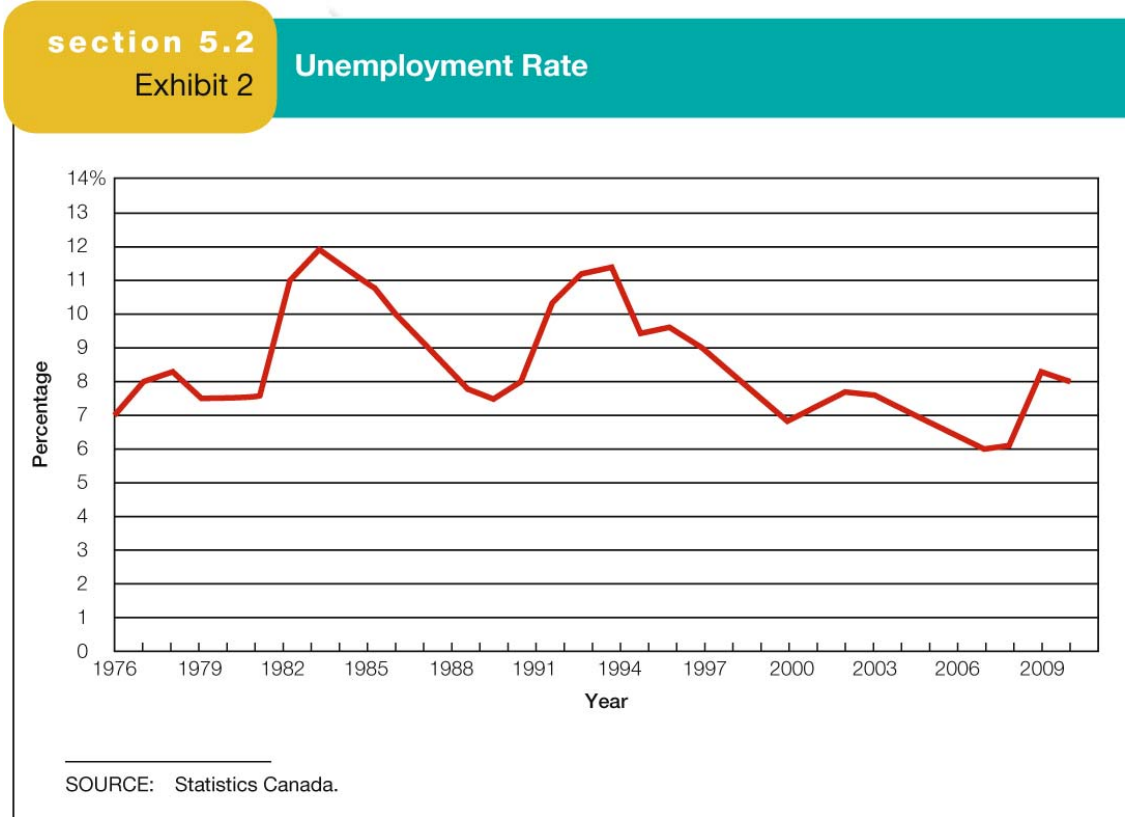
Exhibit 1: The Canadian Labour Force, 2010



- The **labour force** is number of people over the age of 15 who are either employed or are unemployed and seeking work. The **unemployment rate** is defined as the percentage of people who unemployed – that is, are not working and are seeking work.

- By far the worst employment downturn in Canadian history was the Great Depression, which began in late 1929 and continued until 1939. Unemployment fell from only 2.9 percent of the labour force in 1929 to more than 19 percent in the early 1930s, and double-digit unemployment persisted through 1939. Some economists would argue that modern macroeconomics, with its emphasis on the determinants of unemployment and its elimination, truly began in the 1930s.
- Unemployment since 1976 has ranged from a high of 11.9 percent in 1983 to a low of 6.0 percent in 2007.

Exhibit 2: Unemployment Rate

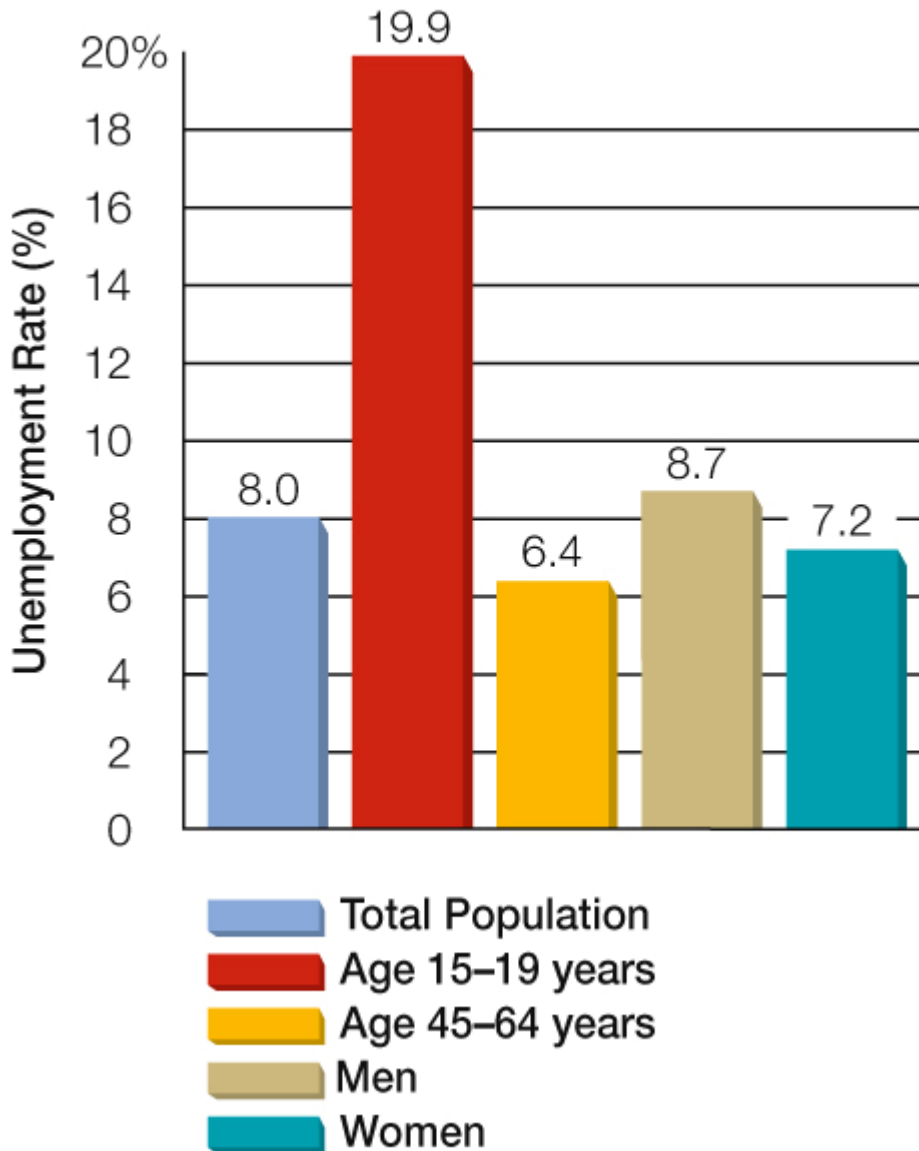


- In periods of prolonged economic recession and high unemployment, some individuals feel that the chances of landing a job are so bleak that they quit looking. These **discouraged workers**, who have not actively sought work, are not counted as unemployed; instead they fall out of the labour force. Also, people looking for full-time work who grudgingly settle for a part-time job are counted as “fully” employed, yet they are only “partly” employed. However, at least partially balancing these two biases in official employment statistics are a number of jobs in the underground economy that are not reported at all. In addition, there may be many people that claim they are actually seeking work when, in fact, they may just be going through the motions so that they can continue to collect employment insurance or receive other government benefits.

- Unemployment usually varies greatly between different segments of the population and by region. Unemployment rates are higher for teenagers and lower for women. Provincial unemployment rates vary from a high of 16.7% in Newfoundland and Labrador to a low of 5.0% in Manitoba.

Exhibit 3: Unemployment in Canada by Age, Sex, and Region, 2010

a. Canadian Unemployment, by Sex and Age



- There are four main categories of unemployed workers: **job losers** (laid off or fired), **job leavers** (quit), **re-entrants** (worked before and now re-entering labour force), and **new entrants** (entering the labour force for first time—primarily teenagers).
- Job losers typically account for 50 to 60 percent of the unemployed, but sizeable fractions are also due to job leavers, new entrants, and re-entrants.
- While unemployment is painful, reducing unemployment is not costless. In the short run, a reduction in unemployment may come at the expense of a higher rate of

inflation, especially if the economy is close to full capacity, where resources are almost fully employed. Also, trying to match employees with jobs quickly may lead to significant inefficiencies because of mismatches between the worker's skill level and the level of skill required for a job. The skills of the employee may be higher than those necessary for the job, resulting in **underemployment**.

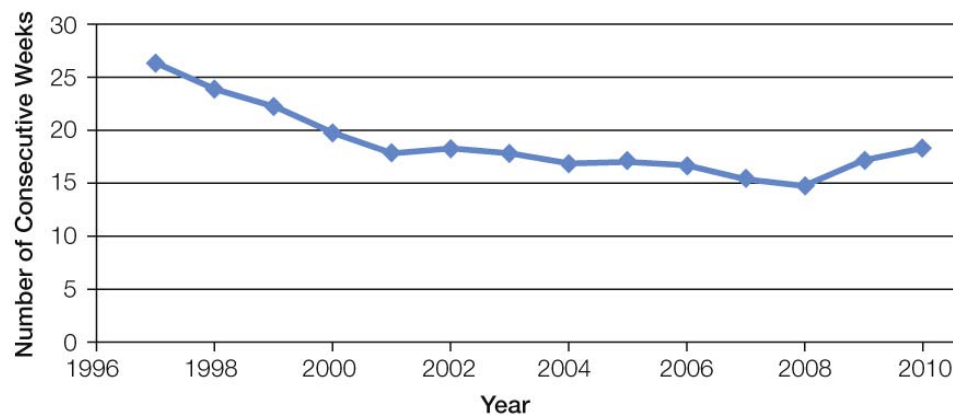
- The duration of unemployment is equally as important as the amount of unemployment in determining its financial consequences. Therefore, it is useful to look at the average duration of unemployment. The duration of unemployment tends to be greater when the amount of unemployment is high, and smaller when the amount of unemployment is low. Unemployment of any duration, of course, means a potential loss of output that is permanent; it is not made up when unemployment starts falling again.

Exhibit 4: Duration of Unemployment in Canada, 1997-2010

section 5.2

Exhibit 4

Duration of Unemployment in Canada: 1997-2010



SOURCE: *Figure: Unemployment duration, Canada, 1997-2010 (consecutive weeks)*, published in *Indicators of Well-being in Canada-Work-Unemployment Duration*, URL: <http://www4.hrsdc.gc.ca/.3ndic.1t.4r%40-eng.jsp?iid=15>. Human Resources and Skills Development, 2011. Reproduced with the permission of the Minister of Public Works and Government Services Canada, 2011.

- The percentage of the population that is in the labour force is called the **labour force participation rate**. Since 1976, it has increased from 61.5 percent to 67.5 percent. The increase can be attributed in large part to the entry of the baby boom into the labour force and a 15.9 percentage-point increase in the women's labour force participation rate.

Exhibit 5: Labour Force Participation Rates for Men and Women

section 5.2
Exhibit 5

**Labour Force Participation Rates
for Men and Women**

| | 1976 | 1986 | 1996 | 2007 | 2010 |
|--------------|-------------|-------------|-------------|-------------|-------------|
| Total | 61.5% | 66.0% | 64.7% | 67.6% | 67.0% |
| Men | 77.6 | 76.8 | 72.2 | 72.7 | 71.1 |
| Women | 45.7 | 55.5 | 57.5 | 62.7 | 62.4 |

SOURCE: Statistics Canada.